ZIONS ZPFI PUBLIC FINANCE, INC.

MEMORANDUM

DATE: January 13, 2016

TO: David Damschen, State Treasurer

FROM: Bruce D. Williams
Zions Bank Public Finance

RE: Karl G. Maeser Preparatory Academy Application to the Utah Charter School Finance Authority

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The purpose of this report is to document Karl G. Maeser Preparatory Academy's ("KGM," or the "School") adherence to the eligibility standards created for participation in the Utah Charter School Credit Enhancement Program (the "Program"). The analysis contained herein is based on Karl G. Maeser Preparatory Academy's full application to the State Charter School Finance Authority (the "Authority"), subsequent conversations and a meeting at the School site with the School's Chief Financial Officer and Financial Advisor, validation of information contained in the application with data from the Utah State Office of Education, as well as additional information and documents submitted in response to follow up requests by the Authority.

The School has provided all information requested subsequent to the submission of the initial application. This report will examine each category of the Program's "Standards for Participation," including Basic Eligibility, Enrollment/Student Demand, Academic Performance, Management, Financial Performance, and Bond Documents. In each of these categories except one, the School met the basic eligibility requirements for participation in the Program, as detailed below. The area for which the school is out of compliance is not meeting the program standard for Debt Service Coverage Ratio for the past three years. This issue is based on the school having a balloon payment at the end of the current debt service schedule and is discussed further within the report.

This report should be examined in direct conjunction with the Letter of Certification for Karl G. Maeser Preparatory Academy from the State Charter School Board ("SCSB Letter"), which provides detailed analysis and historical information on Enrollment/Student Demand, and Academic Performance. The Academy has no unsuccessful marks on the Letter of Certification from the State Charter School Board.

Karl G. Maeser Preparatory Academy—Introduction

Karl G. Maeser Preparatory Academy is a charter school located in Lindon, Utah and serves students in grades 7-12. The School was founded in 2006 and began operations during the 2007-08 school year with 156 students enrolled. KGM's enrollment cap is currently 625 students with current enrollment as of 10/1/2015 of 642 students including tuition paying foreign exchange students. For the 2016-17 school year, the school's enrollment cap will increase to 645 students. The school's governing board has expressed that there is no intent to increase enrollment beyond the FY 2017 enrollment cap. With strong retention and a large waiting list, the School should not have a problem increasing to the new enrollment cap and maintaining this enrollment into the future.

KGM has the following mission statement and vision for students who attend the school and their families.

Mission Statement
Karl G. Maeser Preparatory Academy empowers and inspires students to learn continually, think critically, and communicate effectively through Socratic methods in order to better themselves and their community.

Academic Philosophy
KGM students are expected to master both depth and breadth in content and test that knowledge and themselves though the intellectually rigorous exchange and evaluation of ideas. In the best tradition of the liberal arts, students are required to develop into ethical, knowledgeable, and active citizens in their communities and beyond..

The Project
The School plans to issue approximately $11,910,000 in revenue bonds, which will refund its existing Series 2011 bonds for economic savings. The 2011 bonds were issued to finance KGM's existing facility which consists of a 48,443 square foot building and 7.91 acres of land.

Basic Eligibility

1. KGM's 2016 bonds will be issued through the Authority.

2. The SCSB Letter indicates that KGM is in good standing with the State Charter School Board, with no exceptions.

3. The School has an existing investment grade rating of "BBB-" from Standard & Poor's ("S&P") and has requested that the rating be reaffirmed for the new bonds. The S&P rating should be received prior to the pricing of the new bonds.

The S&P rating report states the following:

The 'BBB-' rating reflects our assessment of:

- Consistently positive historical operating performance, with fiscal 2014 representing the school's seventh year of full-accrual surpluses, and with a surplus budgeted for fiscal 2015.
- Solid unrestricted cash and investments of 109 days cash on hand at the end of fiscal 2014; and
- Steady demand and academic performance during the past four years, and a very healthy wait list.

Partly offsetting the above strengths, in our view, are the schools:

- High carrying charges (with debt service accounting for 21% of fiscal 2014 expenses), which limit budgetary flexibility;
- Potential loss of its charter for nonperformance (as with all charter schools) prior to the bonds' final maturity;
- Limited growth potential, which could constrain revenue growth, as the school is already near its physical capacity of 650 students.

4. KGM recently completed its 8th full year of operations. Financial operating history, as demonstrated by past audited financials, cash position, and increasing unrestricted fund balance, is satisfactory.

5. The School has a defined and specific mission. Their mission statement reads:

   Karl G. Maeser Preparatory Academy empowers and inspires students to learn continually, think critically, and communicate effectively through Socratic methods in order to better themselves and their community.

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6. KGM issued bonds in 2011. The 2016 bonds will refinance these bonds for economic savings. The School is not in default under its existing bonds.

Enrollment/Student Demand

7. The School had 638 students enrolled during the 2014-2015 school year with enrollment growing to 642 students during the 2015-16 year. Current enrollment exceeds the enrollment cap due to the school annually enrolling 12 to 15 tuition paying foreign exchange students and slightly over enrollment based on a desire by the school to maintain ADM at as close to the enrollment cap as possible. Originally, the school

had an enrollment cap of 600 students which was increased to 625 in 2011 and then again to 645 for fiscal year 2016-17.

8. Enrollment at KGM has increased each year since operations began in 2008. For the past four years the school has operated above 101% of its enrollment cap. Current enrollment is at 103% of the school's enrollment cap with the school anticipating adding students up to its expanded enrollment cap of 645 students during the 2016-17 school year. Table 1 from the SCSB Letter includes detailed enrollment history back to the 2007-2008 school year.

9. Karl G. Maeser Preparatory Academy exceeds their enrollment standard established by the SCSB, with the most recent total re-enrollment rate of 88.3%. Over the past four years, the School has ranged between 77.1% and 88.3% in reenrollment rates. Table 2 from the SCSB Letter details historical enrollment and re-enrollment.

10. The School exceeds the ADM rate requirement. Over the last four years, KGM's Average Daily Membership rate has been as follows:

School Year	ADM Rate
2011-2012	98.2%
2012-2013	94.6%
2013-2014	94.5%
2014-2015	99.0%.

11. The School has provided wait list statistics by grade, and has provided the detailed waiting list that includes descriptive and personal information on potential students to the Deputy State Treasurer. The waiting list from the application includes 380 potential students applying for admission in the 2015-2016 academic year.

    The waiting list is relatively strong and includes a satisfactory amount of students for every grade level offered with the exception of the 12th grade with only 2 students on the wait list. When questioned concerning the possibility of smaller 12th grade classes in the future, the school's CFO responded that if the school is unable, in the future, to enroll the same number of 12th grade students as is enrolled for the current year, they have the flexibility to increase the number of students accepted in lower grades to maintain the school's overall enrollment.

Academic Performance

12. The SCSB Letter indicates that the School meets required academic standards. Table 3 from the SCSB Letter provides a breakdown of Karl G. Maeser Preparatory Academy performance relative to other schools. Over the past three years the School's performance has been significantly higher than charter medians.

Management

13. The School has adopted reasonable management policies and practices that guide financial, debt, and risk management. The Board has adopted an acceptable Succession Plan as well as a Financial and Risk Management Plan. No formal policy was provided in the application concerning post issuance compliance but in discussion with the School's CFO, he mentioned that the Board is currently in the process of adopting a formal policy

    In reviewing the school's past compliance with posting continuing disclosure items on EMMA, it was found that the school was timely in filing financial statements for the current year but was late in filing for the three years prior. The CFO stated that the school has had a conversation with the school's auditor and that in the future the audit will be complete in time to meet the requirement to file the report on EMMA within the 130 day requirement under their continuing disclosure resolution.

14. Karl G. Maeser Preparatory Academy has a six-member board. The board members have a diverse set of backgrounds, which include business, computer technology, finance, law and engineering. The Board serves staggered terms.

15. The School employs Lynn Smith as its finance director and Karyl Montgomery as the school's business manager to provide financial and business management services. Mr. Smith has a Master's Degree in Accountancy and has been employed since 2005 in providing business management functions for charter schools. Additionally, he served as Business Administrator for the Provo School District for 16 years.

16. As noted under Table 4 in the SCSB letter, KGM's historical budgeted revenues and expenditures met the State Charter School Board recommended standard of the statutory budget to be within 5% of actual revenues and expenditures. The SCSB letter includes a breakdown of adherence to budgeted revenues and expenses over the past three years.

Financial Performance

The School meets the requirements for the Financial Performance section of the application with the exception of the Debt Service Coverage Ratios for the past three years.

17. Projections used by the School in financial forecasting appear reasonable. KGM seems positioned to continue and improve its healthy financial standing of the past.

The school has forecasted very conservative revenue growth through 2020 at approximately 1-3 % growth per year. Expenditures are forecasted to grow at a similar rate to expenses. The School appears to be in a healthy financial position.

18. Debt Coverage Ratio

Requirement	Measure	Sufficient?
At least 105%	74%	No

Debt coverage ratio is calculated by dividing total revenues available for debt service by the maximum annual debt service payment anticipated for the bonds. Revenues available for debt service is calculated by taking 2015 net income from operations of $295,394 and adding back depreciation expense of $234,953 and interest expense of $733,727. This leaves net revenues available for debt service of $1,264,074. When this number is divided by maximum annual debt service of the existing bonds of $1,698,500, the coverage is 74%.

The 2011 bonds issued by KGM include a balloon payment in 2041 of $1,698,500 which is roughly twice the maximum annual debt service in the prior years. As a result, when calculating the debt service coverage ratio using maximum annual debt service the ratio falls below 1.05 times debt service. This seems to be an anomaly which causes the result to draw an inaccurate conclusion. For this reason, we have also computed the Debt Coverage Ratio excluding the balloon payment. The refunded debt will not include a balloon payment in the debt structure.

	2013	2014	2015
Net Income Available for Debt Service	$1,173,596	$1,074,905	$1,264,074
MADS Debt Service (including balloon payment)	1,698,500	1,698,500	1,698,500
Debt Coverage Ratio	69%	63%	74%

	2013	2014	2015
Net Income Available for Debt Service	$1,173,596	$1,074,905	$1,264,074
MADS Debt Service (excluding balloon payment)	849,500	849,500	849,500
Debt Coverage Ratio	138%	127%	149%

Based on projected revenues, expenditures and new debt service after the refunding, debt service coverage is projected to be between 170% and 177% through fiscal year 2018.

	2016	2017	2018
Net Income Available for Debt Service	$1,336,989	$1.306,989	$1,275,108
Maximum Annual Debt Service (New)	753,680	753,680	753,680
Projected Debt Coverage Ratio	177%	173%	170%

19. Debt Burden Ratio

Requirement	Measure	Sufficient?
Less than 25%	19.4%	Yes

The debt burden ratio requirement is based on the level of the School's fund balance, which we calculate at 38% (cash of $1,468,384 divided by total operating expenses net of depreciation of $3,854,398). The debt burden ratio is calculated as maximum annual debt service ($849,500) divided by unrestricted operating revenues ($4,384,745), taken from 2015 financial statements.

	2015	2014	2013
Maximum Annual Debt Service (excluding balloon payment)	$849,500	$849,500	$849,500
Unrestricted Operating Revenues	4,384,745	4,347,662	4,193,623
Debt Burden Ratio	19.4%	19.5%	20.3%

20. Operating Margin

Requirement	Measure	Sufficient?
At least 7%	28.8%	Yes

Karl G. Maeser Preparatory Academy's operating margin requirement of 7% or greater is based on the calculation for days cash on hand (calculated as cash divided by operating expenses multiplied by 365) of 131 days. Operating margin of 28.8% is calculated by dividing net income available for debt service of $1,264,074 (see calculation under Debt Coverage Ratio) by total revenues of $4,384,745.

	2015	2014	2013
Net Income Available for Debt Service	$1,264,074	$1,074,905	$1,173,596
Revenues	4,384,745	4,347,662	4,193,623
Operating Margin	28.8%	24.7%	28.0%

The School has exceeded the operating margin requirement in each of the past three years.

21. Current Ratio

Requirement	Measure	Sufficient?
At least 150%	197%	Yes

The current ratio is defined as current unrestricted assets divided by current liabilities (including current year debt service).

Current Ratio	***2015***	***2014***	***2013***
Current Assets	$2,414,196	2,077,608	1,959,307
Current Liabilities	1,223,805	1,131,129	1,097,705
Current Ratio	197%	184%	178%

Bond Documents

20-23. KGM's legal bond documents have been reviewed by Chapman and Cutler in their capacity as issuer's counsel to the Authority, and all requirements have been incorporated. In addition, Ballard Spahr, as bond counsel to the Authority, has confirmed that each of the required legal provisions is present in the bond documents.